

**AGENDA ITEM 4b
REAL ESTATE SIGNIFICANT FINDINGS
AS OF DECEMBER 31, 2010**

Significant Real Estate Findings for Second Quarter 2010–11

Fee and Expense Findings:

- **Questioned Fee Calculations**

RREEF America, LLC – General Partner Level: Partner Fees are being charged on 100 percent of the value of assets even though CalSmart only owns a 90 to 98 percent interest in these assets. This method has been used since inception of the CalSmart LLC in 2001. Had the actual value of the CalSmart's ownership been used, CalPERS share of the Fees would have been \$276,390 less during the year under review.

Current Status:

IN PROGRESS. The Investment Office is currently working with the general partner to resolve this issue.

- **Questioned Basis of Fee**

RREEF America, LLC – General Partner Level: The Agreement provides for three types of fees based on the stage of project development. In the case of one property, it is very unlikely the project would be built, however, the Investment Manager continues to charge fees on the cost of a fully developed project. The Agreement is silent regarding when a project should be reclassified for fee basis purposes. If the asset has been misclassified, a refund is due CalPERS, the amount of which cannot be determined at this time.

Current Status:

IN PROGRESS. The Investment Office is currently working with the general partner to resolve this issue.

- **Contractor Agreements**

RREEF America, LLC Property Level Douglas Park: The auditor's review of the construction contracts revealed the following issues:

1. The total contract amount was overstated by \$30,743 as a result of a miscalculation of the Contractor's fee and a misstatement of the contingency fund balance. It should be noted that this does not affect current payments due.
2. The costs incurred by the Contractor were overstated by \$17,120 as a result of miscalculation of insurance cost and the Contractor's fee.
3. The total contract amount was overstated by \$36,272 as a result of a miscalculation of the Contractor's fee and liability insurance.

Current Status:

IN PROGRESS. The contractor agrees with the findings and will implement the audit recommendations. The Investment Office will follow up to ensure the corrective action has been implemented.

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Internal Controls and Accounting Issues:

- **Uncollectible Receivables**

RREEF America, LLC Property Level China Basin: Two old uncollectible accounts receivable in the amount of \$57,000 had not been written off.

Current Status:

IN PROGRESS. The property manager agrees and will write off all uncollectible amounts.

- **Incorrect Classification of Construction Costs**

RREEF America, LLC Property Level Arboretum of South Barrington: Cost of Construction in the amount of \$250,000 was reflected as a “Deposit Receivable” on the balance sheet.

Current Status:

IN PROGRESS. The property manager indicated they reclassified the \$250,000. The Investment Office will follow up to ensure the corrective action has been implemented.